AN ANALYSIS OF MICRO INSURANCE

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INTRODUCTION

The lowest level of population pyramid is the segment, consisting of more than 3.5 billion of people. These people earn less than Rs.200 a day and are termed as poor or low income people. Due to insufficient income and inadequate savings these people mainly face two types of risks: (i) related to property and (ii) related to body. These people constitute an untouched market of insurance but given proper guidance, proper channels and right products, even they can form a significant part of the insurance market in terms of demand. To boost this segment to purchase insurance policies is to facilitate them with a product in which the terms and conditions are modified to suit their needs. This product is capable to tap the rural market and is called 'Micro insurance'. The article also stresses the obstacles faced and the benefits of the same.Microinsurance is a tool for increasing economic growth and development by providing small scale, low premium insurance policies to members of the poorest strata of society in the developing world. In this paper, I will be focusing on the ways in which micro insurance programs, Micro-insurance delivery models, how government helps, Micro insurance Products, Challenges and suggestions.

WHAT IS MICRO-INSURANCE?

According to Micro-insurance Regulations, issued in 2005 by the Insurance Regulatory and Development Authority (IRDA), "micro" refers to the small financial transaction that each insurance policy generates and it is insurance with low premiums and low caps / coverage. It plays a vital role in the economic development of the rural poor. Micro insurance in emerging economies and developing countries means where people are often most vulnerable to risks such as natural disasters, illness and disease and where there is little or no social security. Also, microinsurance is a financial arrangement to protect low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved.

Micro-insurance delivery models

Methods and models for delivering micro insurance products depend on the organization, institution, and provider involved. In general, there are four main methods for offering micro insurance. Each of these models has their own advantages and disadvantages.

Partner agent model

A partnership is formed between the micro-insurance scheme and an agent (insurance company, micro-finance institution, donor, etc.), and in some cases a third-party healthcare provider. The micro-insurance scheme is responsible for the delivery and marketing of products to the clients, while the agent retains all responsibility for design and development. In this model, micro-insurance schemes benefit from limited risk, but are also disadvantaged in their limited control.

Full service model

The micro-insurance scheme is in charge of everything; both the design and delivery of products to the clients, working with external healthcare providers to provide the services. This model has the advantage of offering micro-insurance schemes full control, yet the disadvantage of higher risks.

Provider-driven model

The healthcare provider is the micro-insurance scheme, and similar to the full-service model, is responsible for all operations, delivery, design, and service. There is an advantage once more in the amount of control retained, yet disadvantage in the limitations on products and services.

Community-based/mutual model

The policyholders or clients are in charge, managing and owning the operations, and working with external healthcare providers to offer services. This model is advantageous for its ability to design and market products more easily and effectively, yet is disadvantaged by its small size and scope of operations.

How Government Helps?

Indian government nationalized the top 10 banks in 1969, to stimulate the growth of banking and ban assurance in rural areas. This helped people borrow funds from the banks with relative ease and invest in insurance. Govt. also started arranging 'Loan Melas' in 1980 to bring banks closer to the poor people. To elevate health insurance among these people government proposed 'Universal Medical Insurance'. The government of India started offering widespread crop insurance in 1985, with the Comprehensive Crop Insurance Scheme(CCIS). The CCIS has been replaced by the National Agriculture Insurance Scheme which had been implemented since the Rabi season of 1999-2000. Government also took the initiative and started providing health insurance to people below poverty line by way of smart cards. The scheme is called 'Rashtriya Swastha Bima Yojana' (RSBY) which cover 1.2 crore families, comprising husband, wife and three children, in the first year. Then there are 'Government Social Welfare schemes,' under which all existing diseases hospitalization surgery and daycare services would also be covered. The Centre (75 per cent) and the State (25 per cent) would share the cost. Gujarat and Maharashtra are the only two states of western region where this concentration can be seen. The other available schemes are:

- Personal Accident Insurance Scheme.
- Kisan Credit Card Scheme.

Micro insurance Products

Micro insurance, like regular insurance, may be offered for a wide variety of risks. These include both health risks (illness, injury, or death) and property risks (damage or loss). A wide variety of micro insurance products exist to address these risks, including crop insurance, livestock/cattle insurance, insurance for theft or fire, health insurance, term life insurance, death insurance, disability insurance, insurance for natural disasters, etc. The most frequent micro insurance products are:

- Health micro insurance (hospitalization, primary health care, maternity, etc.)
- Life micro insurance (and retirement saving plans)
- Crop micro insurance
- Weather micro insurance (natural disaster)
- Disability micro insurance
- Property micro insurance - assets, livestock, housing.

Health Micro insurance

Health micro-insurance provides coverage against the financial consequences of ill health and maternity. The financial consequences can take several forms: direct medical costs of prevention, care and cure (fees for consultations, laboratory tests, medicines, hospitalization, delivery, etc.); direct non-medical costs such as costs of transportation, food in case of hospitalization; and indirect costs (opportunity costs), as ill health and maternity usually entail a loss of productive time for both patients and caretakers. Health micro-insurance schemes usually cover direct medical costs covering a predetermined list of risks (or health services).. Health micro insurance offers the promise of helping communities pay for quality healthcare by optimally pooling their own limited resources.

- Hospitalization only:
- Hospitalization and outpatient (comprehensive)
- Limited outpatient/ community health services:
- Chronic Illnesses
- HIV/AIDS
- Preventive health services

Life Micro insurance

Life Insurance covers the policy holder and his/her family in the event of death and disability. It is an important measure of financial security for low-income households and the insurance product currently most widely available. Of all insurance types, life cover is, relatively speaking, the least difficult to provide, because:

- It is relatively easy to price compared to other types of insurance.
- It is mostly resistant to problems of fraud and moral hazard.
- It is not dependent, unlike many types of health insurance, on the existence and efficient functioning of infrastructure like clinics or hospitals.
- It is a relatively low-risk product for the provider.

Crop Micro insurance

Crop insurance is an agricultural insurance product and covers crops against perils such as hail or fire. Index instruments are often used for crop insurance to avoid moral hazard risks and are not connected to one particular crop, but are based on the measurable occurrence crop failure generated by uncontrollable adverse events (e.g., drought, crop pest).

Weather Micro insurance

The rural poor, economically dependent on agricultural production, face significant risks to their livelihoods from catastrophic weather events that cause widespread crop failure, with implications not only for the affected households, but for the whole rural economy. Weather or climate Insurance is an agricultural insurance product and like crop insurance, often linked to index insurance. Index insurance is an innovation that mitigates many of the fundamental problems that hamper the development of insurance for weather risks in lower income areas.

Disability Micro insurance

Disability micro-insurance provides coverage against the financial consequences of disability, whether temporary or permanent, depending on the contract. Disability is called temporary when the physical loss is reversible and lasts for a limited period of time (generally up to three years) and is permanent when the injury and loss is beyond recovery.

Property Micro insurance

Property micro-insurance (assets, livestock, housing) provides coverage against the financial consequences of the damage or loss of personal assets, work premises and tools (e.g. hut micro-insurance against fire, theft of belongings, or death of livestock).Property and asset insurance covers against damage and/or loss of assets in the event of the covered perils. Livestock insurance is an agricultural insurance and covers against loss of livestock owned by the policy holder(s). Most livestock insurance schemes insure against a specific peril and can be paid out in the form of a lumpsum payment or livestock replacement. Agricultural insurance aims to reduce the vulnerability of low-income households faced by natural disasters like drought, flood or livestock epidemics.

Other Insurance Products

Micro insurance includes many specific products that are adapted to the needs and demands of low-income households and cover specific risks. Micro insurance products by some of the different insurance companies are:

Insurance Rural Products Company	Rural Products
LIC	Anmol jeevan, Jeevan aastha.
Birla Sun Life	Bima Suraksha Super and Bima Dhan Sanchay.
Max New York Life	Max Suraksha, Easy term, Max mangal endowment, Max vriksha money back.
MetLife	Met vishwas.
Tata AIG	Navkalyan Yojana, Ayushman Yojana, Sampoorna bima, Sumangal bima.

Challenges

When a new product is introduced in the market, there are lots of challenges and obstacles which are to be faced, e.g., difficulties in distribution in rural areas. Traditional sales systems of brokers, agents and direct sales do not reach the poor. There is lack of marketing strategy to attract these people. The products are not designed to meet the specific characteristics of the low-income market, including problems such as inappropriate insured amounts, complex exclusions, and complex legal policy language. For very small policies, the transaction cost is very high. Many people are skeptical about paying high premiums for an intangible product with future benefits that may never be claimed. Cost of educating consumers, to create awareness about the value of insurance is high. Inappropriate services because of inadequate information. Problem in obtaining death certificate and other documents at the time of claim payment. Most people don't have bank accounts so payment of claim by cheque becomes difficult.

SUGGESTIONS

- Market research of the risks faced by the poor has to be done so that the actual demand of the insurance can be assessed. This not only will spread the awareness about various insurance schemes available but will also help the insurers to actually know the kind of risks these people are facing
- Panchayats and local groups should be involved at the time of claim payment as well as in educating people.
- If rural people are already using some of the insurance products then the insurers should also try to know the satisfaction level of the existing products they are using.
- The amount of premium to be paid should be set according to the income these people receive or the mode of premium payment should match their mode of receiving income.
- The schemes and advertisements should be displayed on the village walls and in local language.

CONCLUSION

The awareness of insurance products available among the low income groups is very low. Also they have the assumption that insurance is a status symbol and it can only be afforded by the rich people. They are averse to giving a good part of their income for insurance to hedge them against the unknown and uncertain future risk. So insurance institutions will have to take the initiative not only to remove these misconceptions but in providing more attractive, useful and more affordable options. This can be done only by overcoming the obstacles and increasing the awareness about micro insurance which is a boon for low income people.

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